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**28 May 1999**

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# CIRCULAR

**THE  
FURTHER  
EDUCATION  
FUNDING  
COUNCIL**

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## **Sector Accounting Policies**

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**To**

Principals of colleges  
External auditors of colleges

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**Circular type**

Guidance

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**Summary**

Revised model financial statements  
and accounting guidance.  
Financial statements for the year  
ending 31 July 1999 are requested  
by 31 December 1999

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**Supersedes**

Circular 97/28 and Circular 98/26

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Reference number: 99/23

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**99/23**

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# Sector Accounting Policies

## Introduction

1 The purpose of this circular is to offer colleges guidance on preparing financial statements. The guidance set out in this circular supersedes that provided in Circular 97/28 and Circular 98/26, consolidating and updating the previous guidance.

2 The Council has consulted the major providers of external audit services and sector representative associations on this guidance.

## Background

3 The further education (FE) sector in England comprises general FE colleges, art and design and performing arts colleges, agriculture and horticulture colleges, tertiary colleges, sixth form colleges, voluntary-aided sixth form colleges, voluntary-controlled sixth form colleges and other specialist designated colleges. The word 'college' is used in this document to refer to all colleges in the FE sector.

4 All colleges have charitable status; some are registered charities but most are exempt charities. A small number are companies limited by guarantee.

5 Colleges vary in the range of activities they conduct and in their size and complexity. The main activity of all colleges is teaching but increasingly they may also undertake other activities, incidental to teaching. The range of such activities across the sector is wide and includes the provision of catering services, student residences and farming. A significant number of colleges have established limited liability companies to pursue income-generating activities.

## Statement of Recommended Practice for the FE and HE Sectors

6 A statement of recommended practice (SORP) for the higher education (HE) sector was published in 1994. The scope of that SORP is now being widened to encompass both the FE and HE sectors. A revised version of the SORP is due to be published

as an exposure draft during summer 1999 and the final version is expected to be published by the Accounting Standards Board later this year.

7 The revised SORP has been developed by a working group of the British Universities Finance Directors' Group (BUFDG), expanded to include a representative of the Council and representatives of the College Finance Directors' Group. The sponsoring body for the SORP is the Committee of Vice-Chancellors and Principals (CVCP) together with the Association of Colleges (AoC). The sponsoring body includes a representative from the Council and the chair of the BUFDG working group.

8 The guidance and model financial statements set out in this circular and its supplements are consistent with the current draft of the revised SORP.

## Model Financial Statements

9 The Council requires that the following items be presented in the format set out in supplement A to this circular:

- income and expenditure account
- statement of recognised gains and losses
- note of historical cost surpluses and deficits
- balance sheet
- cashflow statement
- description of the responsibilities of the members of the corporation
- corporate governance statement on internal financial controls.

10 The remainder of the information in supplement B to this circular illustrates how the Council's disclosure requirements could be met.

11 The auditor's report set out in supplement B to this circular is based on the example in Circular 94/28 *College Audit Reports*.

12 The model financial statements take account of Financial Reporting Standards (FRS) up to FRS 15 *Tangible Fixed Assets* and consider the implications of recent Urgent Issues Task Force (UITF) Abstracts.

## Scope

13 The Council is required to establish accounting policies for the FE sector under the terms of its financial memorandum with the Department for

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Education and Employment (DfEE). The Council's accounting policies for the sector are applicable to all colleges, regardless of their size, constitution or complexity. They need not be applied to immaterial items. Guidance on the determination of what is material may be found in Statement 2.401 *The Interpretation of 'Materiality' in Financial Reporting*, issued by the Council of the Institute of Chartered Accountants in England and Wales.

14 Where compliance with the Council's accounting policies would not be sufficient to give a true and fair view, additional information should be given in the notes to the financial statements. Exceptionally, the members of the corporation (or board of governors) may find that compliance is incompatible with the obligation to give a true and fair view, in which case an alternative accounting treatment may be necessary. Particulars of any departure from sector accounting policies, the reason for it and the estimated financial effect on the financial statements of such a departure, should be given in the members' report and notes to the financial statements. UITF Abstract 7 *True & Fair Override Disclosure* specifies what should be disclosed in these circumstances. A departure would not be justified simply for the purpose of presenting a more appealing picture of the financial position of the college.

## Objectives of Financial Statements

15 The objectives of financial statements are governed by such questions as:

- for whom is the information in the statements intended
- what types of decisions do the users wish to make on the basis of it
- what information do the users need to enable them to make such decisions
- what framework is required to provide the information needed?

16 The users of a college's financial statements include:

- the college and its governing body
- present and potential lenders
- the Council
- the college's employees
- other colleges

- grant-awarding bodies
- creditors
- students
- people with whom the college makes contracts (buying and selling)
- the general public
- the inland revenue, and customs and excise.

17 The demands placed upon the financial statements of colleges by these users differ in the level of detailed information they require, but they all have the common characteristic that the financial statements should give a true and fair view of the college's financial position at the balance sheet date, and of the income and expenditure and cashflows for the period ending on that date. This implies that the financial statements will include details of:

- income from all sources receivable for the period
- expenditure on all activities within the period
- all assets and liabilities of the college at the balance sheet date, classified in a suitable form
- contingencies.

## Structure of the Guidance

18 The guidance is organised in this circular and its supplements in the following way:

- this introductory section, which summarises key requirements including a timetable
- detailed guidance on accounting policies (annex A to supplement A)
- a corporate governance checklist (annex B to supplement A)
- a cover sheet for colleges' returns (annex C to supplement A)
- regional office contacts and addresses (annex D to supplement A)
- model reports and financial statements (supplement B).

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## Revisions to Guidance

19 This guidance includes new or revised guidance on the following areas:

- year 2000 compliance
- staff costs
  - senior postholders' emoluments
  - overseas activities (new requirement effective from 1 August 1999)
  - pay awards
  - banding of emoluments for all higher paid staff
- corporate governance
- pension schemes and other post-retirement benefits
- Council grant income analysis
- tuition fees analysis
- long-term debtors
- the *Trustee Investment Act 1961*
- group accounts
- college companies
- fixed assets
- significant donations used for capital purposes
- provisions
- approval of financial statements; and
- balance sheet format (amendment illustrated in supplement B to this circular).

20 Two financial reporting standards (FRS 13 and FRS 14) published since Circular 98/26 was produced do not appear to be relevant to colleges' financial statements. A brief summary of each is set out below.

### Financial instruments

21 FRS 13 *Derivatives and Other Financial Instruments* was published in September 1998. It applies to accounting periods ending on or after 23 March 1999. FRS 13 is only relevant to entities (other than insurance companies) which have one or more of their capital instruments publicly traded on a stock exchange or market and to all banks and similar institutions. FRS 13 is not, therefore, relevant to colleges' financial statements.

### Earnings per share

22 FRS 14 *Earnings per Share* was published in October 1998. FRS 14 supersedes SSAP 3 *Earnings per Share* and makes certain amendments to UITF Abstract 13 *Accounting for ESOP Trusts*. FRS 14 only applies to entities whose ordinary shares are publicly traded. FRS 14 is not, therefore, relevant to colleges' financial statements.

## College Financial Statements 1998-99

23 Financial statements comprise the accounts (income and expenditure account, statement of total recognised gains and losses, statement of historical cost surpluses and deficits, balance sheet and cashflow statement), the statement of accounting policies and the notes to the accounts.

24 Reports and financial statements comprise a members' report, the financial statements, a statement of the responsibilities of the members of the corporation, a corporate governance statement and an auditors' report to the members of the corporation.

### Approval of reports and financial statements

25 The reports and financial statements must be approved by the corporation. They should be signed and dated as follows:

- a. the members' report should be signed and dated by the chair of governors on behalf of the corporation;
- b. the balance sheet should be signed and dated by the principal and one other member of the corporation, usually the chair of governors. (The footnote to the balance sheet should state the range of pages included in the financial statements and the date of approval by the full corporation); and
- c. the corporate governance statement should be signed and dated by the principal.

26 Items a), b) and c) above should normally be signed on the same date. They must also be signed on or very shortly before the date on which the college's external auditors sign and date their audit report.

27 Following a combination of two or more colleges (merger), the governing body in existence at the date on which the financial statements are due

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to be signed is required to approve and sign the financial statements relating to each of the former separate colleges.

### **Timetable**

28 Under the terms of Circular 98/30 *The Financial Memorandum*, colleges are required to send a signed copy of their audited reports and financial statements (bearing original signatures) to the Council no later than five months after the end of each accounting period.

29 Each college should send a signed copy of its financial statements for 1998-99, together with its signed finance record and disk and, if applicable, financial statements for its subsidiary undertakings, to the regional director at the relevant regional office to arrive on or before 31 December 1999. A cover sheet for the returns is attached at annex C of supplement A to this circular and the address and telephone number of each regional office is set out at annex D of supplement A to this circular.

### **Audit reports and management letters**

30 The Council's requirements regarding external auditors' audit reports and management letters were set out in supplement C to Circular 98/15 *Audit Code of Practice*. In particular, external auditors are reminded that they should send a copy of the final version of their management letters, including the college's responses, to the chief auditor of the Council at the same time as they are sent to the college.

31 External auditors are also reminded that where they determine that they are unable to express an unqualified opinion on a college's financial statements, they should immediately communicate this to the principal, the chair of the corporation and the chair of the audit committee. The chief auditor of the Council should also be informed without delay. This requirement is set out in paragraph 8 of supplement C to Circular 98/15.

32 The Council recognises that auditors' responsibilities in respect of year 2000 issues will be set out in each college's engagement letter. However, the Council would be grateful if external auditors would inform college management and the chief auditor of the Council immediately if they discover during the course of their audit of colleges'

1998-99 financial statements that colleges have not achieved an adequate state of readiness to deal with the year 2000 date change, in view of the submission deadline of 31 December 1999.

### **Finance record**

33 The finance record was designed to be an electronic version of the audited financial statements. When the Council wishes to refer to the financial performance of the sector or of individual colleges (for example when making submissions to ministers or publishing benchmarking information), it uses the finance record as its source. To help colleges complete the finance record, the model financial statements have been cross-referred to the financial forecast format. The finance record should be signed by the principal or the head of finance.

### **Guidance**

34 Colleges with queries on how to apply the Council's guidance on accounting policies to the particular circumstances of their own college may wish to consult their external auditors or regional finance director. Colleges wishing to make general points about the development of accounting guidance should contact Judith Howden, regional finance director, at the Council's Coventry office.



